



REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA 09-10

AUDIT OF
BAY DELTA REGION
(LICENSE SALES FUNCTION)

AUGUST 2010

Memorandum

To: Charles Armor, Regional Manager
Bay Delta Region

Date: August 2, 2010

From: Brian A. Kwake, Chief
Department of Fish and Game

Audit Control Number
WA 09-10

Subject: Final Audit Report - Bay Delta Region's License Sales Function

Attached is the final audit report for the Bay Delta Region's (BDR) license sales functions for the period February 1, 2008 through March 31, 2010. The audit was conducted of BDR's Stockton and Yountville, California license sales locations and was performed under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department of Fish and Game (DFG). The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

The BDR's response to the report generally agrees with our audit findings and recommendations. The Audits Branch (AB) incorporated the Department's response as Attachment A to this report.

We would like to thank the BDR staff for their time and cooperation. Should you have any questions, please contact Scott Marengo at (916) 445-3367.

Attachment

cc: K. Hunting
H. Carriker
H. Kiyari
J. Fong
C. Catalano
J. Gloria
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SUMMARY

The Department of Fish and Game's (DFG) Audits Branch (AB) performed an audit of the Bay Delta Region's (BDR) license sales functions at the Stockton and Yountville, California license sales offices. The audit was conducted to determine whether controls over the license sales function were adequate to ensure sales transactions were properly recorded, reported, and sales revenue was deposited, and whether the internal controls were adequate to ensure accountability for its consigned inventories of licenses, permits, tags, and stamps. The audit found the internal control structure over the license sales and inventory functions to be adequate, except for the following areas:

- Lack of a Written Organization Plan (Finding 1);
- Untimely Deposits (Finding 2);
- Missing Monies (Finding 3);
- Checks are not Restrictively Endorsed Timely (Finding 4);
- Change Funds are not Reconciled (Finding 5);
- No Logs Listing People with Access to Safe (Finding 6);
- Inadequate Separation of Duties (Finding 7); and
- Semi-Annual Reconciliation of License Inventory not Performed (Finding 8).

FOLLOW-UP ON PRIOR AUDIT FINDINGS

On June 15, 2006, the AB issued audit report number WA 05-18 on the formerly named Central Valley Bay Delta license sales function located in Stockton, California (Since our last audit, this office became part of the Bay Delta Region). We followed up on the findings in this report to determine if the prior audit findings had been fully resolved. These findings related to five year free sport fishing licenses, inadequate separation of duties, inventory reports not properly reviewed, security violations, cash and inventory reconciliation, identification of collections, inadequate prelisting procedures, checks not restrictively endorsed, improper review of bank deposits and untimely deposits. We determined that the BDR-Stockton Office has taken corrective action on most of the prior audit findings. As detailed in this audit report, the BDR-Stockton Office continues to have findings related to separation of duties (Finding 7), checks not restrictively endorsed (Finding 4), and untimely deposits (Finding 2).

Additionally, On May 20, 2008, the AB issued audit report number WA 07-12 on the Bay Delta Region – Yountville Office license sales function. We followed up on the prior audit findings in this report and determined the prior audit findings have been fully resolved. These findings related to semi-annual reconciliation of license inventory and untimely reporting of expired license inventory.

BACKGROUND

The DFG has 10 regional and field offices that offer license sales to the public. The License and Revenue Branch (LRB) sales manual provides the DFG offices instruction on license issuance, deposit, accounting, cashiering, and reporting requirements. The License Agent System (LAS) provides a method of accounting for the sale of various licenses, permits, stamps, and other items distributed by the LRB. Part of this LAS function is the actual distribution of the various items of inventory maintained by the LRB.

Under the authority of the AB charter, the AB has initiated audits of the DFG's license sales at the 10 regional and field offices in order to provide management reasonable, but not absolute, assurance that the DFG offices are in compliance with laws relating to the sale of commercial and sport licenses. As part of this process, the BDR was selected for audit.

SCOPE, METHODOLOGY, AND OBJECTIVES

The DFG's AB audited the BDR license sales function for the period February 1, 2008 through March 31, 2010. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

Our study and evaluation included a review of applicable laws and regulations, as well as regional sales and inventory records. Audit tests and other audit procedures considered necessary to meet audit objectives were included. These tests consisted of documenting the cash and inventory internal controls, identifying control strengths and weaknesses, performing compliance testing of the license sales functions, verifying inventories, documenting and evaluating adequate separation of duties.

The objectives of the audit were to provide the DFG's management with reasonable, but not absolute, assurance that:

- Controls over the license sales functions were adequate to ensure that sales transactions were properly authorized, supported, recorded, and deposited.
- Controls were adequate to ensure accountability of inventories assigned to the office and inventories consigned to the individual sales clerks.

CONCLUSION

In our opinion, the BDR has properly recorded, deposited, reported license revenue, and accounted for inventory valued at \$2,302,990 (Yountville Office) and \$102,275 (Stockton Office) for the period February 1, 2008 through March 31, 2010. The internal control structure over cash receipts and inventory at the BDR in effect at March 31, 2010, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the license sales inventory, except for the weakness described in the Findings and Recommendations Section of this audit report.

Original signed by:

Brian A. Kwake, Chief
Audits Branch

August 2, 2010

Audit Staff: Scott Marengo, Auditor

FINDINGS

AND

RECOMMENDATIONS

FINDING 1 LACK OF A WRITTEN ORGANIZATIONAL PLAN

The BDR-Stockton Office does not have a written organizational chart or formalized duty statements for the front counter staff. The California Government Code (CGC) Section 13878 requires departments to prepare organization plans and charts to reflect current approved organization structures. The CGC Section 13403 specifies the elements of a satisfactory system of internal accounting and administrative controls shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of State assets.

The BDR-Stockton Office has been going through reorganization but no organizational charts or duty statements have been finalized for front counter license sales personnel. Without an adequate organization plan, the BDR-Stockton Office is at increased risk for confusion relative to employees duties and responsibilities and the potential that not all license sales functions are being adequately fulfilled.

RECOMMENDATION

The BDR should establish an organizational chart and duty statements specific to the BDR-Stockton Office front counter license sales function.

BDR Response: An organizational chart and duty statements have/will be forwarded to the Audit Branch staff.

AB Comments: We concur with the BDR response.

FINDING 2 UNTIMELY DEPOSITS

Deposits are not always made timely at the BDR-Stockton Office. Four deposit slips were selected for substantive testing to determine compliance with the State Administrative Manual (SAM) criteria. All four deposit slips tested for license sales contained cash in excess of \$1,000 and were left in the safe for more than one working day before being deposited. These deposit slips also contained monies which were collected and not deposited within 10 working days (excluding holidays and furloughs).

The SAM Section 8032.1 requires agencies that have safes, vaults, money chests, or other comparable storage that is adequate to safeguard cash may accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants, whichever occurs first, and then must make deposits. Deposits that are not made timely could result in the loss or theft of the State's assets.

RECOMMENDATION

We recommend that the BDR-Stockton Office make deposits timely as prescribed in the SAM.

BDR Response: The Administrative Officer II (AO II) will monitor daily receipts to ensure that timely deposits are made to comply with SAM.

AB Comments: We concur with the BDR response.

FINDING 3 MISSING MONIES

Front license counter sales staff was occasionally careless in processing license sales transactions. During our testing of cash controls at the BDR-Stockton Office, we disclosed two unexplained cash shortages of \$33.25 on March 8, 2010 and \$12 on March 22, 2010.

The SAM Section 8070 specifies each department is responsible for establishing standards of performance for their cashiers prescribing corrective actions to be utilized when performance standards are not satisfied. The SAM Section 8080 specifies an internal control system be established to ensure assets are safeguarded. Further, the CGC Section 13402 requires that a satisfactory system of internal accounting and administrative controls include a method to limit access to State assets to authorized personnel and to maintain a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

RECOMMENDATION

We recommend that the BDR-Stockton Office investigate the reasons for these missing monies and train their front counter staff to be more careful in processing license sales transactions.

BDR Response: In the future, more care will be given to processing sales transactions. We have reminded staff to be more careful when handling cash, checks or credit cards.

AB Comments: We concur with the BDR response.

FINDING 4 CHECKS ARE NOT RESTRICTIVELY ENDORSED TIMELY

Incoming checks mailed to the BDR-Stockton Office are not restrictively endorsed immediately. The incoming checks are not endorsed until they are processed through the cash register.

The SAM Section 8023 requires all checks, money orders, and warrants received for deposit will be restrictively endorsed for deposit as soon as possible after receipt, but no later than the end of the working day. In addition, the CGC Section 13402 requires that a satisfactory system of internal accounting and administrative controls include a method to limit access to State assets to authorized personnel and to maintain a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. Further, the SAM Section 8080 specifies an internal control system be established to ensure assets are safeguarded.

Without timely endorsements, the BDR-Stockton Office is at risk of lost or stolen negotiable instruments by someone other than the state agency and is susceptible to possible fraud or abuse that may not be detected.

RECOMMENDATION

We recommend that the BDR-Stockton Office ensure incoming checks and money orders are restrictively endorsed for deposit as soon as possible after receipt, but no later than the end of the working day.

BDR Response: We will be implementing a check log system like the one used in Yountville. Checks will be logged and endorsed as part of the incoming mail. Checks will be logged off as they are deposited noting the deposit number on the log.

AB Comments: We concur with the BDR response.

FINDING 5 CHANGE FUNDS ARE NOT RECONCILED

The change funds at the BDR-Stockton Office are not reconciled on a quarterly basis and sent to Headquarters. The SAM Section 8111.2 requires that an employee other than the custodian of the change or petty cash fund will count the change funds quarterly and report the count to the Accounting Officer. Without timely reconciliations, the BDR-Stockton Office is at risk of lost or stolen change fund monies.

RECOMMENDATION

We recommend that a person other than the custodian of the change fund prepare the change fund reconciliation on at least a quarterly basis (preferably monthly) at the BDR-Stockton Office.

BDR Response: Change funds are being reconciled on a monthly basis by the AO II.

AB Comments: We concur with the BDR response.

FINDING 6 NO LOG LISTING PEOPLE WITH ACCESS TO SAFE

The BDR-Stockton Office does not maintain a log of the names of persons knowing the present safe combination and the date the combination was last changed. The SAM Section 8024 specifies that a record will be kept showing the date the combination last was changed and the names of persons knowing the present combination. Without adequate documentation over safe access, the BDR-Stockton Office is at increased risk of lost or stolen State assets.

RECOMMENDATION

We recommend that the BDR-Stockton Office establish a log of the names of persons knowing the present safe combination and the date the combination was last changed.

BDR Response: This has been done.

AB Comments: We concur with the BDR response.

FINDING 7 INADEQUATE SEPARATION OF DUTIES

The Inventory Custodian at the BDR-Stockton Office orders, receives, compares received to ordered, logs and assigns inventory to sales staff. The SAM Section 8080 requires each department maintain an adequate system of internal control which includes separation of duties. Further, the CGC Section 13402 requires a satisfactory system of internal accounting and administrative control include an organization structure that segregates duties to ensure the adequate protection of State assets. As a result of the improper separation of duties, the BDR-Stockton Office is susceptible to possible fraud and abuse that it may not detect.

RECOMMENDATION

We recommend the BDR-Stockton Office needs to review the duties of the Inventory Custodian and ensure that the person ordering license inventory is also not the same person who verifies this incoming inventory.

BDR Response: This has been corrected. The inventory custodian orders and all orders are checked in by the AO I or AO II.

AB Comments: We concur with the BDR response.

FINDING 8 SEMI-ANNUAL RECONCILIATION OF LICENSE INVENTORY NOT PERFORMED

The BDR-Stockton Office does not perform the Semi-Annual Reconciliation of license inventory. According to the LRB office memorandum number 01-02, dated February 19, 2002, the LRB will provide DFG license sales offices with a statement of all consigned inventory semi-annually in April and October. The statement is to be compared against a physical count of all inventory consigned to the office, and is to be done by an independent third party who does not order, receive, consign, maintain or sell inventory.

The BDR-Stockton Office did not perform the semi-annual reconciliation. Without reconciliations, there is no assurance that consigned inventory is accounted for and is current.

RECOMMENDATION

The BDR-Stockton Office should conduct the Semi-Annual Physical Inventory of its assigned inventory. This reconciliation should be performed by someone other than the inventory custodian, counter sales personnel, or the person receiving the inventory shipments. If the Semi-Annual Inventory Statement is not received for the April and October periods, the BDR-Stockton Office should contact the LRB and request a copy of the statement for the purpose of completing the semi-annual reconciliation.

BDR Response: Physical inventory will be performed by the OA II.

AB Comments: We concur with the BDR response.

ATTACHMENT A

AUDITEE'S RESPONSE

Memorandum

Date: July 27, 2010

To: Brian A. Kwake, Chief
Audits Branch

From: *Scott Wilson FOR*
Charles Armor, Regional Manager
Bay Delta Region

Subject: Response to Draft Audit Report – Bay Delta Region's License Sales Function,
Dated June 25, 2010

As requested, below are the Region's responses to the internal audit findings and recommendations of our license function.

Finding 1 – Lack of written organizational plan – Recommendation is to establish an organizational chart and duty statement specific to the Bay Delta Region's Stockton office license sales function.

Response: An organizational chart and duty statements have/will be forwarded to the Audit Branch staff.

Finding 2 – Untimely deposits – Recommendation is to make deposits timely as prescribed in the State Administrative Manual (SAM).

Response: The Administrative Officer II (AO II) will monitor daily receipts to ensure that timely deposits are made to comply with SAM.

Finding 3 – Missing Monies – Recommendation is to investigate the reasons for these missing monies and train the front counter staff to be more careful in processing license sales transactions.

Response: The two shortages noted in the audit report; one for \$33.25 was reconciled in April. The sales report showed the shortage in March and an overage in April for the same amount by the same sales clerk. We were not able to account for the \$12.00 shortage. In the future more care will be given to processing sales transactions. We have reminded staff to be more careful when handling cash, checks or credit cards.

Finding 4 – Checks are not restrictively endorsed timely – Recommendation is to ensure incoming checks and money orders are restrictively endorsed for deposit as soon as possible after receipt, but no later than the end of the working day.

Response: We will be implementing a check log system like the one used in Yountville. Checks will be logged and endorsed as part of the incoming mail. Checks will be logged off as they are deposited noting the deposit number on the log.

Finding 5 – Change funds are not reconciled – Recommendation is that someone other than the custodian of the change fund prepares the change fund reconciliation on at least a quarterly basis (preferably monthly).

Response: Change funds are being reconciled on a monthly basis by the AO II.

Finding 6 – No log listing people with access to safe – Recommendation is to establish a log of the names of the persons knowing the present safe combination and the date the combination was last changed.

Response: This has been done.

Finding 7 – Inadequate separation of duties – Recommendation to review the duties of the inventory custodian and ensure that the person ordering license inventory is also not the same person who verifies that inventory when it's received.

Response: This has been corrected. The inventory custodian orders and all orders are checked in by the AO I or AO II.

Finding 8 – Semi-annual reconciliation of license inventory not performed – Recommendation is to conduct a semi-annual physical inventory of assigned inventory.

Response: Physical inventory will be preformed by the AO II.

As always, we appreciate the assistance from your staff for their guidance and suggestions to improve our operations. If you have any questions, please contact Ms. Cindy Catalano at (707) 944-5539; or Ms. Kathie Mowlem at (209) 948-6067.

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